# Five urgent reforms to boost Australia's climate finance in a rapidly decarbonising world

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# ABOUT THE AUTHORS


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# INTRODUCTION

The Albanese Labor Government has taken significant steps to move Australia along the path to a thriving decarbonised economy. Its Powering Australia Plan, including funding for critical minerals, upgrading transmission for renewables and processing of clean energy materials will help to boost private investment not only to reduce emissions, but also to improve Australia's ability to get more value from its abundance of raw materials and its potential to generate cheap and plentiful renewable energy.

May saw a significant shift in geostrategic energy dynamics, with Prime Minister Albanese and US President Biden agreeing on a Climate, Critical Minerals and Clean Energy Transformation Compact. If approved by Congress, Australia will be deemed a domestic supplier under the Inflation Reduction Act, the Biden Administration's flagship clean energy initiative. This will make Australian companies and projects eligible to benefit from US$800 billion of decarbonisation capital.

To take full advantage of the opportunities afforded by Australia's wealth of renewable energy and critical minerals, Australia should seek to mobilise its own considerable domestic public and private financial capital to support national decarbonisation objectives.

The scale of the energy transformation will require significant private investment. The Government can set policy parameters to incentivise this, as well as leading the way with long-term strategic investments, so as to de-risk and "crowd in" private investment. Climate Energy Finance estimates that $100 billion of public capital would attract around $300 billion of private investment.

Treasurer Jim Chalmers' announcement last month of a Sovereign Green Bond program starting in 2024 will be part of this, as will his proposal to require some listed companies and financial institutions to make climate-related financial risk disclosures. The Treasurer has made clear he considers national strategic interests to be a crucial – and up to now lacking – consideration in Australia's institutional investment objectives. He has declared his wish that his legacy as Treasurer be as the facilitator of Australia's clean energy transformation.

Here are five public finance reforms the Federal Government can implement to accelerate decarbonisation and fulfill the Treasurer's clean energy ambitions. >>>

# 5 PRIORITY REFORMS

## 1. Reform the Future Fund to enable it to make long term national interest investments

Unlike other sovereign wealth funds, the Future Fund does not have a direction relating to Australia's national interest. Its object and directions are currently wholly and solely about annual financial risk-returns. While it is important that the Future Fund continue to make financial returns, there is a strong case for it also to have a national interest direction. At very least, the Future Fund should be required to comply with the Government's proposed mandatory climate risk disclosures.

A national interest direction would enable the Future Fund to invest long term patient capital strategically in zero emissions technology across all asset classes, particularly where it supports and enables onshore refining and manufacturing. Future Fund investment in such areas would provide assurance to private investors, de-risking investment in promising new technologies. It would also support domestic majority equity ownership and hence domestic corporate tax payments.

## 2. Create a new public asset fund for critical minerals processing

Australia's relative wealth in critical minerals and its potential for abundant, cheap renewable energy justify a new public asset fund, similar to that for medical research, managed perhaps by the Future Fund to facilitate on-shore processing of critical minerals. Beyond the initial injection, additional capital for such a Fund could be raised by the Government through the capping of the fuel tax credit for large companies, and an improved Petroleum Resource Rent Tax contribution beyond the tweak announced in the May 2023 budget. Such measures would both return to the Australian people a greater proportion of the benefits from exploiting Australia's natural resources, and direct those benefits into creating more economic value (and employment) from the global energy transformation.

A fund of this nature would complement and support investments by the National Reconstruction Fund and the Powering the Regions Fun, plus CEFC, EFA and NAIF, in facilitating manufacturing and onshore processing of the raw materials needed for the world's decarbonisation. >>>

# 5 PRIORITY REFORMS

## 3. Reform benchmarks for superannuation to reward low-carbon investments

The purpose of superannuation is to provide income (in addition to government support) for a dignified retirement. The Treasury is currently consulting on a new formulation of this objective that includes the concepts of equity and sustainability. The My Future My Super rules for superannuation funds set by the Australian Prudential Regulation Authority (APRA) require funds to perform against a benchmark. Funds that perform below benchmark for two consecutive years are closed down. The benchmarks are set to a number of domestic and international indices laid out in government regulations.

The current list of market indices favours incumbent firms by taking a backward look at aggregate market sentiment. It has been heavily skewed in the past year to fossil fuel companies, reflecting temporary windfall gains on the back of Russia's war on Ukraine. Over the medium term, as fossil fuel companies scramble to maximise their short term returns in a decarbonising world, this distortion could continue. Given the long term nature of superannuation investment, and the need for funds to be able to provide for members over decades, the Government should adjust the benchmarks to prioritise low-carbon investments. At very least, the benchmarks should not penalise such investments.

Such indices already exist: MSCI's world low carbon indices are designed to assist institutional investors to ensure their long term financial investments are aligned with the long term health of the planet. As CEIG notes, the infrastructure benchmark also needs to separately model appropriate returns for renewable and grid infrastructure, not compare to higher risk returns on coal ports, tollroads and airports.

Changing the benchmark to include low-carbon indices would help to unlock the $3.4 trillion in Australian superannuation assets for climate-responsible investments, and ensure that funds are not penalised for prioritising their members' long term interests in having a liveable planet over short term financial windfalls from highly polluting industries. >>>

# 5 PRIORITY REFORMS

## 4. Issue Foreign Investment Review Board guidelines to set the Government's expectations on Australian equity and consistency with the Paris Agreement

The Foreign Investment Review Board (FIRB) examines foreign investments in Australia that meet certain thresholds relating to the amount of equity a foreign entity is planning to take in an Australian venture, landholding and national security requirements. The FIRB publishes guidance notes to assist potential investors to assess whether they will require FIRB approval, but deliberately avoids publishing guidelines on potential review criteria, on the grounds that the whole purpose of the FIRB is to assess individual applications on their merits.

A set of FIRB guidelines for critical minerals could usefully set expectations for protecting Australian national security, as well as consistency with Australia's Paris Agreement commitments and the Climate Change Act 2022. Equity requirements would be based on evidence from the Australian Tax Office suggesting that Australian resource companies generally pay their share of Australian taxes, while international resource companies operating in Australia generally do not. Additional equity requirements would increase the likelihood that a fair share of the benefits from resource exploitation return to the Australian people.

A set of FIRB expectations around consistency with the Climate Change Act would set a clear signal to all investors that Australia is serious about implementing its contribution to global emissions reductions and that the Government recognises the importance of setting an investment framework that reflects that and seeks to leverage Australia's national advantage by diversifying global critical mineral supply chains, consistent with the Australia-US Compact. It would also make clear the Government's view that adding value to our critical minerals and metals resources prior to export is a strategic objective. Australia should export embodied decarbonisation and increase global diversity of supply by avoiding excessive foreign concentration of control. >>>

# 5 PRIORITY REFORMS

## 5. Revise the Northern Australia Infrastructure Facility's mandate to align investments with Australia's Paris commitments

When the Government passed the Climate Change Act 2022, it included a series of consequential amendments, including to the NAIF, which added an eligibility provision for NAIF funding whereby a project might be deemed eligible if it contributed to meeting Australia's emissions reduction commitments.

While this is laudable, NAIF must also assess applications against whether they will make it harder to meet Australia's emissions reduction obligations. The current Ministers' statement of expectations has made clear the Government wants the NAIF to support its climate agenda. The NAIF's scheduled statutory review in 2024 provides an opportunity to enshrine this in the regulatory investment mandate, to ensure that all projects that receive NAIF funding at least do not make it more difficult, including in a cumulative sense, for Australia to meet its commitments under the Paris Agreement to keep global warming to well below 2 degrees from pre-industrial levels, and as close to 1.5 degrees as possible.

Given the need for decisive action at scale, the Australian government should coordinate the considerable expertise and capacities across the Future Fund, EFA, ARENA, CEFC and NAIF. As part of this, NAIF must ensure that its important development objectives are consistent with the even more important goal of ensuring that Northern Australia - already the site of worsening climate-related disasters - remains safe for development and for its people.

Revising the NAIF's investment mandate to be consistent with responsible climate action will also deliver a strong message to proponents that projects based on clean energy and sustainable development are safe investments. Enhancing enabling common user infrastructure for critical minerals and decarbonising our electricity supply to drive lower cost zero emissions power supply for onshore value-adding should become a key priority.

# FURTHER READING

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